

CONSOLIDATED
RAMBLER
MINES
LIMITED

ANNUAL
REPORT

FOR THE YEAR ENDED
DECEMBER 31

1978

CONSOLIDATED RAMBLER MINES LIMITED

Incorporated under the laws of Ontario on January 20, 1961

DIRECTORS	A. G. KIRKLAND Saint John, New Brunswick K. R. LAVOY, JR. New York, U.S.A. D. A. MACFARLANE Saint John, New Brunswick G. F. PUSHIE St. John's, Newfoundland L. MCC. RITCHIE Saint John, New Brunswick C. K. WELLS Cornerbrook, Newfoundland <i>D. JAMESON</i>
OFFICERS	L. MCC. RITCHIE <i>President</i> A. G. KIRKLAND <i>Vice-President</i> D. A. MACFARLANE <i>Secretary and Treasurer</i> MRS. M. JONES <i>Assistant Secretary</i>
EXECUTIVE OFFICE	FIFTH FLOOR, GOLDEN BALL BLDG. Saint John, N.B.
MINE OFFICE	BAIE VERTE Newfoundland
AUDITORS	COOPERS & LYBRAND Saint John, N.B.
TRANSFER AGENT and REGISTRAR	GUARANTY TRUST COMPANY OF CANADA Toronto, Ontario
ANNUAL MEETING	April 19, 1979 — 2:30 p.m. (Toronto Time) SASKATCHEWAN ROOM, ROYAL YORK HOTEL, Toronto, Ontario

DIRECTORS' REPORT

To the Shareholders

Earnings for the year 1978 were \$2,381,458 (80c per share) compared with \$51,808 (2c per share) in 1977. An extraordinary item relating to the recovery of income taxes increased the net earnings for the year to \$4,049,458 (\$1.36 per share). There was no comparable extraordinary item in 1977.

The year 1978 was outstanding for the Corporation with production and shipments of concentrate achieving record levels. Ore mined and milled during the first eight months of 1978 was scheduled at a rate of 1,100 tons per working day. Due to the lesser availability of ore in the balance of the year, the scheduled rate of output was decreased to 950 tons per working day. Taking the year as a whole, approximately 273,000 tons of ore were mined and milled in 1978, an increase of 13.6% over the previous year. This enabled the production of 45,424 tons of concentrate in 1978 compared with 38,090 tons in 1977, an increase of 19.2%.

During the 1978 shipping season, ten shipments were made containing 55,600 short wet tons of concentrate. This compares with seven shipments in 1977 containing 38,200 short wet tons. Of the 10 shipments in 1978, 6 were destined for the Gaspe smelter of Noranda Mines Limited (Noranda) and 4 went to Quebec City, Quebec for rail transportation to the Horne Smelter of Noranda at Noranda, Quebec.

In October, 1978, the workers at the Gaspe smelter went on strike and Noranda declared a "force majeure" position under the Corporation's sales agreement. This strike has continued to the present time and will have the effect of deferring the treatment of and payment for concentrate at that location.

As described in the mine manager's report, the improved grade of copper contained in concentrate achieved in the latter part of 1977 continued throughout 1978 so that the average for the year 1978 was 25.2% compared with 23.0% in 1977. Simultaneously, the control of zinc (mercury) in the concentrate was maintained or improved.

While metal prices strengthened near the end of 1978, and have since shown further increases, the average price received for copper contained in concentrate for 1978 was 69.2c per pound compared with 64.5c received in 1977, an increase of 7.3%. Copper values in concentrate at year end have been priced at 74c per pound compared with 61c in 1977. Gold and silver values in concentrate showed better improvement in 1978, increasing 18% and 24% respectively. The current strengthening of metal prices has, to some extent, been offset in part by the suppliers giving purchasers greater flexibility in pricing their purchases. In addition, a closer relationship of the North American producers' price of copper with the Commodity Exchange price has greatly increased the volatility of the price. While, generally speaking, industry spokesmen are optimistic regarding the progress of the mining industry in 1979, the likelihood of unusual fluctuations in price is greater than heretofore.

Direct operating expenses increased by about 8% during 1978 due in part to the cost of living clause in the Corporation's labour agreements and a 10% wage increase negotiated as at September 30.

During 1978, the greater portion of the ore mined (54%) came from the Ming Extension property compared with 46% from the Ming Mine. This is about the reverse of 1977 when 57% of the ore came from the Ming Mine and 43% from the Ming Extension. The significant portion of ore mined from the Ming Extension in 1978 together with that mined in the previous year have given rise to considerable liability (estimated at \$1.6 million) under the Corporation's participation agreement referred to in note 2 to the financial statements. While at December 31, 1978, no amount was immediately payable under the agreement, payments may be required during the 1979 fiscal year.

At year end ore reserves were stated at 265,000 tons, of which 108,000 tons (40.7%) were in the Ming Mine and 157,000 tons (59.3%) were in the Ming Extension to the 2200 ft. level. Management is hopeful further ore will be located below the 2200 ft. level.

The year 1978 witnessed a significant improvement in the Corporation's financial position. Working capital increased from \$3.3 million at the end of 1977 to \$9.5 million at the end of 1978. In this connection, however, it should be pointed out that the realization of this sum is based on the liquidation of settlements receivable at values not less than those estimated at December 31, 1978. At that date, the Corporation was carrying its largest ever quantity of concentrate not priced (some 45,000 tons as compared with 39,000 at the end of 1977 and 23,000 tons at the end of 1976). The value of this concentrate is dependent not only on the level of metal prices but also on the variation of the Canadian dollar on the

foreign exchange markets. The settlement of the strike at the Gaspe smelter of Noranda will also have an effect on the timing of payment for a significant portion of the Rambler concentrate.

There has been no change in the Board of Directors or management of the Corporation in the past year.

On behalf of the Board,

L. McC. RITCHIE, President

Saint John, N.B.
February 28, 1979

MINE MANAGER'S REPORT

To: — Mr. A. G. Kirkland, Vice-President

Operations for the year ended December 31, 1978 were as follows:

PRODUCTION	1978	1977
Ore milled — D.S.T.	273,234	240,521
Average per operating day	1,148	998
Grade % copper	4.70	4.25
Operating time %	86.5	91.8
Copper recovery %	93.29	89.47
Concentrate produced — D.S.T.	45,424	38,090
Contained metals — copper — pounds (net)	23,033,786	17,490,173
gold — ounces (net)	15,393	11,859
silver — ounces (net)	123,035	97,239

MINE OPERATING COSTS PER TON MILLED

Mining	\$10.57	\$ 9.98
Development	1.94	1.80
Milling	8.89	7.64
General	3.03	3.04
	<hr/>	<hr/>
	\$24.43	\$22.46
	<hr/>	<hr/>

ORE RESERVES

As at December 31

	Ming		Ming X		Total	
	1978	1977	1978	1977	1978	1977
Vertical depth — feet	1,700	1,700	2,200	2,000	2,200	2,000
Reserves — tons	108,000	376,000	157,000	117,000	265,000	493,000
Grade % copper	4.33	4.18	4.18	5.18	4.24	4.42
Grade oz. gold/ton	0.08	0.07	0.08	0.10	0.08	0.08
Grade oz. silver/ton	0.75	0.58	0.79	0.81	0.77	0.63

Ore reserves for the Ming Mine are calculated from surface to the boundary of the property, nominally 1,700 ft. For the Ming Extension property, they are calculated from the boundary to the 2200 ft. level. The 2200 level south zone has not been included because there is no diamond drill information.

MINE MINE DEVELOPMENT

	1978	1977
Main ramp advance — ft.	1,480	549
Drifting — ft.	281	463
Raising — ft.	—	31
Diamond drilling — ft.	2,557	2,891

MING EXTENSION DEVELOPMENT

Ming ramp advance — ft.	601	872
Drifting — ft.	391	1,186
Raising — ft.	123	—
Diamond drilling — ft.	6,709	7,028

MILLING

Another production record was established during the year, with considerable improvement in both concentrate grade and recovery compared to 1977. In addition, an improvement was made in the reduction of zinc (mercury) in the copper concentrate.

The recovery of gold and silver declined during the latter half of the year and test work was carried out to try to recover some of these precious metals from the scavenger cleaner tailings but without success. Further test work is planned for 1979.

As an aid to cost reduction and to ensure a supply of sulphur dioxide, a sulphur burner and absorption tower were installed in the mill and were operating satisfactorily by year end.

MINING

Tonnage and grade of ore produced during the year exceeded plan.

Development was accelerated during the year to ensure that the main ramp to the 2100 level was completed before year end. This made it possible to improve ventilation to the 2100 level and to commence sinking to the 2200 level.

Generally, the lower levels show thinner massive sulphides but the strike length is greater when considering the combined strike length of the main and south zones. Disappointing results were encountered on the 1700 level, where a section of the ore body "pinched out". This was in an area where there was no information from surface diamond drilling. As a result, it was necessary to reduce the mine output to 950 tons per day starting in September and to reduce the ore reserve tonnage in this part of the ore body.

EXPLORATION

The 94 claim group in the Gullpond area about five miles south of the Rambler plant did not respond to several geophysical techniques and no in situ mineralization was discovered during detailed prospecting. Exploration has been suspended on this claim group.

Diamond drilling was continued along the acid-basic contact in the 22 claims area within the property boundary with no intersection of mineralization thus far. Further drilling is planned for 1979.

Two more diamond drill holes which were drilled underground into the footwall mineralized zone were completed from the 1800 level. Grades were low and similar to the holes drilled in 1977.

GENERAL

Contract negotiations were completed with both Locals 7190 and 8484 of the United Steelworkers of America. A two-year contract was negotiated for a 10% increase in the first year and a 6% increase in the second year.

Once again, it is a pleasure to acknowledge the support of the Officers and Directors of the Company, together with the mine staff and employees for a successful year.

Respectfully submitted,

J. E. GRAINGER, B.Sc., P. Eng.
Mine Manager

February 13, 1979

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Balance Sheet

ASSETS

	1978 \$	1977 \$
CURRENT ASSETS		
Cash	1,524,803	—
Settlements receivable (net) from sale of copper concentrate	12,408,421	5,501,766
Accounts receivable	43,674	5,926
Prepaid expenses	146,969	51,813
	<u>14,123,867</u>	<u>5,559,505</u>
FIXED ASSETS		
Buildings, surface structures and equipment — at cost	8,513,065	8,393,861
Less: Accumulated depreciation	7,391,058	6,246,315
	<u>1,122,007</u>	<u>2,147,546</u>
Mining property — at cost less accumulated amortization of \$4,993,600 (1977 - \$4,543,600) (note 3)	384,116	834,117
	<u>1,506,123</u>	<u>2,981,663</u>
DEFERRED EXPENDITURES		
Mine development expense — at cost less accumulated amortization of \$1,701,251 (1977 - \$1,058,251)	623,089	1,266,089
Materials and supplies — at lower of cost and net realizable value	617,846	1,267,615
	<u>1,240,935</u>	<u>2,533,704</u>
	<u><u>16,870,925</u></u>	<u><u>11,074,872</u></u>

Signed on behalf of the Board

L. McC. RITCHIE, Director

D. A. MACFARLANE, Director

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December 31st, 1978

LIABILITIES

	1978 \$	1977 \$
CURRENT LIABILITIES		
Bank advances	—	796,136
Accounts payable and accrued liabilities	959,294	598,061
Current instalment on purchase price of mining property	642,131	593,230
Mining tax payable	1,376,628	201,900
Accrual under participation agreement (note 2)	1,636,000	36,000
	<hr/> <u>4,614,053</u>	<hr/> <u>2,225,327</u>
BALANCE OF PURCHASE PRICE OF MINING PROPERTY		
(less current instalments) (note 3)	—	642,131
	<hr/> <u>4,614,053</u>	<hr/> <u>2,867,458</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized —		
5,000,000 shares of \$1 par value		
Issued —		
2,980,006 shares	2,980,006	2,980,006
Less: Discount thereon	965,000	965,000
	<hr/> <u>2,015,006</u>	<hr/> <u>2,015,006</u>

CONTRIBUTED SURPLUS	14,625	14,625
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RETAINED EARNINGS	10,227,241	6,177,783
	<hr/> <u>12,256,872</u>	<hr/> <u>8,207,414</u>
	<hr/> <u>16,870,925</u>	<hr/> <u>11,074,872</u>

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended December 31, 1978

	1978 \$	1977 \$
REVENUE FROM CONCENTRATE PRODUCTION	17,887,584	8,874,190
Less: Marketing expenses	1,016,116	574,394
	<hr/>	<hr/>
OPERATING EXPENSES	16,871,468	8,299,796
	<hr/>	<hr/>
EARNINGS BEFORE THE UNDERNOTED ITEMS	7,215,687	5,626,832
	<hr/>	<hr/>
Depreciation of fixed assets	9,655,781	2,672,964
Amortization of mine development expenses and mining property	<hr/>	<hr/>
Exploration	1,156,000	1,046,200
Mining Tax	1,093,000	923,500
Interest on advances and bank loans	44,366	89,017
Interest on long-term debt	1,277,000	186,000
Allocation under participation agreement (note 2)	362,104	236,826
	<hr/>	<hr/>
	73,853	103,613
	<hr/>	<hr/>
	1,600,000	36,000
	<hr/>	<hr/>
	5,606,323	2,621,156
	<hr/>	<hr/>
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	4,049,458	51,808
PROVISION FOR INCOME TAXES	1,668,000	—
	<hr/>	<hr/>
EARNINGS BEFORE EXTRAORDINARY ITEM	2,381,458	51,808
EXTRAORDINARY ITEM		
Reduction of current years' income taxes on application of prior years' losses	1,668,000	—
	<hr/>	<hr/>
NET EARNINGS FOR THE YEAR (note 1)	4,049,458	51,808
RETAINED EARNINGS — BEGINNING OF YEAR	6,177,783	6,125,975
RETAINED EARNINGS — END OF YEAR	10,227,241	6,177,783
	<hr/>	<hr/>
EARNINGS PER SHARE		
Before extraordinary item80	.02
For the year (note 1)	1.36	.02
	<hr/>	<hr/>

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1978

	1978 \$	1977 \$
SOURCE OF WORKING CAPITAL		
From operations	6,702,258	2,022,638
Decrease in materials and supplies	245,969	—
	<hr/> <hr/> 6,948,227	<hr/> <hr/> 2,022,638
USE OF WORKING CAPITAL		
Transfer of mortgage principal from long-term debt to current liabilities	642,131	597,229
Buildings and equipment	130,460	341,208
Increase in materials and supplies	—	1,491
	<hr/> 772,591	<hr/> 939,928
INCREASE IN WORKING CAPITAL	6,175,636	1,082,710
WORKING CAPITAL — BEGINNING OF YEAR	<hr/> 3,334,178	<hr/> 2,251,468
WORKING CAPITAL — END OF YEAR	<hr/> 9,509,814	<hr/> 3,334,178

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Settlements receivable —

Settlements receivable are shown at estimated realizable value less advances of \$2,714,000 (1977 - \$3,369,817). In accordance with terms of the sales contract, final settlements are made at prices prevailing at a future date and the amounts eventually received may vary from the amounts shown as settlements receivable at December 31, 1978.

Depreciation and amortization —

Depreciation and amortization of fixed assets are on the unit of production method on a basis of the estimated ore reserves.

Mine development expenses are being amortized on the unit of production method on a basis of the estimated ore reserves.

Materials and supplies —

During the year, the corporation adopted the policy of valuing its material and supplies inventory at the lower of cost and estimated realizable value. The adoption of this policy has decreased net earnings for the year by \$403,800.

2. PARTICIPATION AGREEMENT

Under a participation agreement between the Corporation, the Carroll prospector Group ("Carroll") and Advocate Mines Limited ("Advocate"), the Corporation is extracting ore from a property known as the Ming Extension which adjoins the Corporation's Ming Mine. The agreement provides for the Corporation to pay to Carroll and Advocate 10% of the profits therefrom until its exploration and preproduction costs have been recovered and thereafter 55% of the profits.

Management calculates that on an accrual basis as reflected in the financial statements, there is an amount of \$1,636,000 due to the Carroll and Advocate participants at December 31, 1978. However, on a cash basis as contained in the agreement, no amount is payable at that date and the actual amount to be paid will depend on prices and costs prevailing at a future date.

3. BALANCE OF PURCHASE PRICE OF MINING PROPERTY

The principal balance of \$642,131 due under the 8% mortgage on the Corporation's mining property is payable in four equal quarterly amounts of principal and interest, the next of which is due on January 29, 1979.

4. INCOME TAXES

The application of certain Income Tax Regulations for the year 1978 results in no federal income tax liability for the current year.

In prior years the Corporation recorded depreciation and amortization in its accounts but did not claim all of the relative allowances for income tax purposes. Accumulated allowances unclaimed for tax purposes are approximately \$4,000,000. (1977 - \$5,300,000)

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total direct remuneration paid during 1978 to directors was \$3,600 and to senior officers (as defined in the Ontario Business Corporations Act to include the five highest paid employees of the Corporation) was \$139,112.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Consolidated Rambler Mines Limited as at December 31, 1978 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND

Chartered Accountants

February 1, 1979

